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Sproule, William

“The railroads and the
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San Francisco

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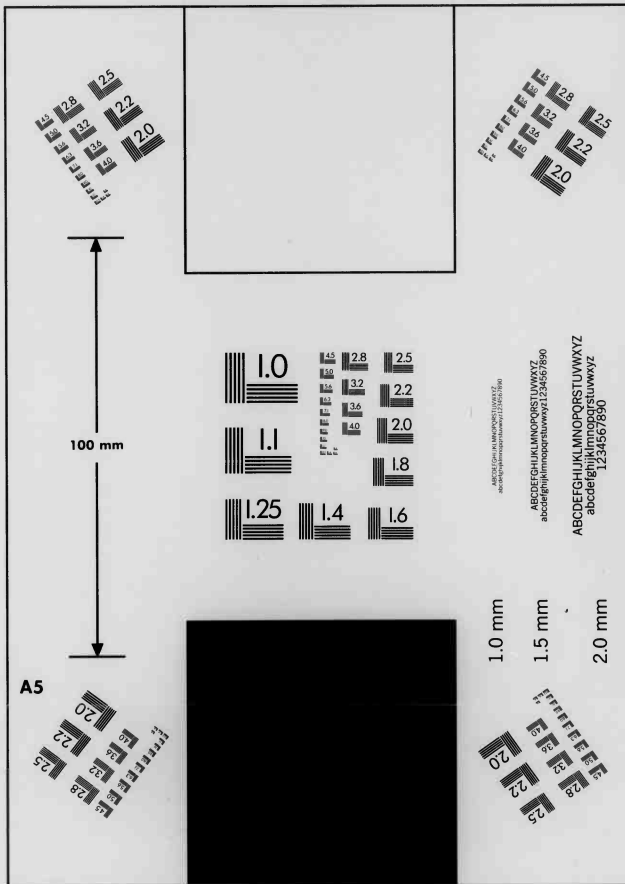
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"The Railroads and the People"

ADDRESS OF MR. WM. SPROULE,

PRESIDENT, SOUTHERN PACIFIC COMPANY

At the Annual Convention of the American Bankers Association,
Seattle, Washington, September 7, 1915

THE subject assigned me by your Committee is "The Railroads and the People". I like that statement of the subject, particularly the conjunction "and", because there is more in conjunction between the railroads and the people than most of the people realize. The subject would not be correctly stated if it had been entitled "The Railroads or the People", although that would better fit the tongues of the glib.

A recent writer about banks and railroads has said that the great American public is not unfair. That in fact it is eminently fair where reasonably well informed, but has been misled, confused and only half informed at the best. That both parties to the controversy are at fault, the Government for too much publicity of the wrong kind, the railroads for too little publicity of the right kind. That elementary education on these great, live, national subjects, education that can be grasped by the busy man, is the one great need in the present juncture. That without it the questions can not be settled right; and no question is ever settled right until it is settled with justice to all concerned.

It may be assumed, accordingly, that it is wise for us to address ourselves to the duty of setting before the people a few elementary facts and principles, rather than to spend the time in deploring unhappy conditions. In the end it is the people who regulate and rule, under our theory of government in this nation.

The primary relation of the railroads and the people is that the railroads sell transportation to the people. To many minds this relation disposes of the subject. The common notion is that the people have nothing more to do with it than may be necessary to obtain their transportation at the lowest price. If the buyers of bread had a voice in the fixing of its price, bread would be cheap indeed. If the buyers of meat had a voice in the price of meat, it would not be long before the price would drop so low that the farmer would find it without profit to grow livestock. But the people have indeed a voice in the fixing of rates for transportation, and the buyer of transportation concerns himself little with the question as to what effect the price has upon the railroads. The price is seldom low enough to satisfy the purchaser. If he is satisfied, his satisfaction with any given transportation rate or rate condition is only temporary. The mere lapse of time suffices to create further demands

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that the service be rendered for less money. This follows the impulse of self-interest, and we all know that this impulse is not always safe or sound.

There is an epigram that in a kingdom of the blind a one-eyed man is King. A hard task before the railroads is on the one hand to correct the impressions which serve for opinions among people blinded by what appears to be their self-interest, and on the other hand to contend against that kind of one-eyed domination of the railroads which keeps one eye upon popular opinion without an eye of vision for what is necessary to bring the greatest good to the greatest number. Yet there is a conjunction of interest which so far has hardly been perceived, but which is sufficient to warrant the railroads and the people in taking counsel together for promotion of the common safety. Let us see why. Allow me to give you a few figures, here and there, which I will state in round numbers because they serve the present purpose without needless detail.

There are in the United States over a quarter of a million miles of steam railroad, which have about six hundred thousand shareholders and about a million and three-quarters of employees. This figures roughly one shareholder to three employees. So little is thought about the shareholder that I would wish to say more about him, and I take this opportunity to tell you that if you will average the railroad shareholders according to the railroad mileage they would stand within seven hundred yards of each other along every mile of steam railroad in the nation. This means that throughout the United States each shareholder would be in plain sight of two other shareholders along the right of way, under conditions of normal vision. Yet because of the free-and-easy way in which the public has attached to railroad properties the names of well known men, the people generally have a vague belief that the railroads are owned by a very few wealthy people. The facts run to the contrary. The railroads are owned by a great army of the people; people who have put of their savings into railroad shares until six hundred thousand of them are direct owners. It requires no argument, unless we argue the obvious, to show that if the savings of the people who have thus entered into railroad ownership prove to be secure, and the returns to them as the owners of the money prove to be attractive, there will be little trouble in obtaining from them and others like them more money for improving the railroads which now serve the people, and for extending them into sections whose development is standing still because of the lack of railroad service. As a question of public policy is it not fundamentally sound that the rights of these hundreds of thousands of saving and prudent people should be given as serious consideration as any other factor in the railroad question? Is it not obvious that there should be accorded to them the same full measure of solicitude which is extended to other human factors prominently before us in all industrial discussions?

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But there are still other hundreds of thousands of the people who have a personal interest in the railroads. Those whom our political saviors call the Common People (why they are called common I do not know) are the chief users of the Savings Banks of this nation. These savings banks have for their depositors about eleven millions of the people. These depositors rely upon the ability of the savings bank to earn with safety and certainty enough money on their deposits to pay to the depositors a satisfactory rate of interest, with such a banking profit added as will maintain the integrity and solvency of the bank without question. These savings banks carry between eight hundred and nine hundred millions of dollars in railroad bonds and stocks. Upon the earnings derived from them these savings banks properly, and in accordance with the laws of their respective states, are dependent for an important part of their income, and their income is for the benefit of their depositors. To state it another way, if these railroad securities owned by the savings banks were to be averaged among the depositors, each depositor would have an interest in the railroads of between seventy-five and eighty dollars. Every depositor is thus interested in exercising his influence to prevent decline in the values of the securities which safeguard his deposit. Is it not plain that it is unfair, and in fact dangerous as a matter of public policy, to lose sight of the interests of these hosts of the people, who have a personal though indirect relation to the railroads? Is it not rather the function of the Government in its superior knowledge to be watchful of their interests, even when they themselves may but dimly realize their own interests and rights with respect to these things?

It is hardly necessary to refer to state and other banks and trust companies, whose holdings in protection of their depositors and in the conduct of their business count up to several hundred millions of dollars more.

This aspect of the subject carries us into still wider fields. Among the large holders of railroad securities the Life Insurance Companies are of vast importance to the people. Nearly every man of family carries insurance of some sort. It is the duty of the insurance companies to find profitable investment for the millions confided to them by their policy-holders, and what form of investment should be more secure and more profitable than that which appertains to the greatest industry in this country or in any other, the American railroads? In the United States there are over thirty-four million life insurance policies. Every holder values dearly his insurance, whether for himself or those dear to him who may later be dependent upon the proceeds of that insurance, and so every policy-holder is interested in the railroads and the stability of their securities. When the efficiency and standards of railroad properties are impaired and their income cut, the path of reduction leads to the income of the insurance companies, and it is upon that income the insured must rely. Let the policy-holder bear this in mind. I will not

dwell upon fire, accident or other insurance, since similar relation exists with respect to them.

As already stated, there are over a quarter of a million miles of steam railroad in the United States, with a roster of about one and three-quarter millions of men. This is a vast army, even in these days of vast armies that affect us with awe. This army of the people relies directly upon the railroads for its livelihood. It has the right to adequate consideration by the Government. This consideration it has only in part received. There has been no recognition of the fact that working hours may be shortened, conditions of labor may be made ideal, safety may be attained, crews may be stuffed full to overflowing, and yet the prosperity of this army of the people fail simply because the railroads lack the ability to earn enough to keep the man at work, much less to expand, improve and extend the lines and the service. It is to the direct interest of the employees and the millions dependent directly upon them for their subsistence that the railroads have prosperous earnings.

It is to the further interest of the employees that the shareholders also have prosperous returns, for the employee can not safely forget that averaged over the American system of railroads one shareholder means three employees. To maintain and operate the railroads takes not the shareholder alone or the employee alone, it requires them both and they stand as to numbers only in the ratio of three to one. Theirs is in reality a common interest in obtaining adequate earnings. It is not exaggeration to say that danger to the railroad as employer can not forever, or for long, be averted by the employee. No matter who own the railroads, earnings and expenses, or income and outgo, are two blades of a shears. One blade can not for long cut into gross earnings without bringing into activity the other blade which cuts expenses. Of expenses over forty-five per cent are for wages. In fact seventy per cent of all the disbursements of the railroads (even when taxes, interest and dividends are included), are for the three items of wages, fuel and supplies. The railroads give good wages ungrudgingly. The contentions are rarely upon the wage schedule itself, but upon needless and embarrassing and complicated incidentals. What the railroads have to contend and urge, notwithstanding their desire to pay their employees well, is the plain fact that the railroads have not adequate income out of which to pay these wages. In the two decades from 1894 to 1914 the revenues from operation of the steam railroads increased 183 per cent, but the expenses of operation increased 200 per cent. The number of employees increased 118 per cent, while the compensation of employees increased 213 per cent. I will state it another way. With the rates of 1904 as a unit the railroads would have earned about one hundred and sixty millions of dollars more than the earnings of 1914. While the railroad revenues were thus reduced in the sum of one hundred and sixty millions of dollars, the compensation paid to employees was in the same time

increased by something over one hundred millions of dollars. This process can not continue indefinitely. As an economic question it is impossible that the compensation of employees can continue to increase while the compensation of the employer continues to decline. There are in consequence millions of people, consisting of railroad employees and those dependent upon them, who can justly insist that the interests of the railroads be nurtured rather than ignored in the adjustment of transportation questions.

So we could move along into the various phases of human activity, only to find that the railroads and the people have interests common to an extent the people do not yet realize. When they do realize it they will wake up in their might to the fact that the railroads' prosperity is their prosperity. The people will rise to a knowledge that it is the function of the Government to be watchful of their interests as a whole, and then the one-eyed man no longer can be king. The people will demand breadth and scope and constructive purpose; they will demand that both sides and all sides of the railroad question be given equal and unprejudiced consideration. They will insist, in the interests of all the people, that the railroads be maintained in a condition of physical and financial strength and that they be released from "the tyranny of prejudice" and relieved from the paralysis of uncertainty.

Whether it be the shareholder, the bank depositor, the holder of insurance policies, the railroad employees and their people, or the public generally, all will do well to remember that amid the loose and casual talk about watered stock and over-capitalization it is no longer seriously contended that the railroad properties of the United States are worth less than the amount of their capital. Yet the earning power of the railroads upon the capital employed has so declined that at the present time out of every hundred dollars of gross earnings which comes into the treasury fourteen dollars has to be set aside to pay interest upon bonds, although the bonds bear but a moderate rate of interest. These bonds were taken upon faith in the earning power of the properties and were issued in compliance with the laws of the land. They are held in this country and abroad, and this young and great nation can well see to it that the earning power of its railroad activities is maintained. Especially is this so since it is known throughout the world that the railroads have been under governmental scrutiny and control for more than a generation. It is true that railroad financial administration may be criticised in spots, and just criticism is wise, but they are like certain dramatic points in a picture, they catch the attention but they do not tell the story. The people instead, may be invited to survey the whole history of American railroading, from its pioneer beginnings, through unmapped difficulties and through periods of crisis when great administrators pledged their personal fortunes to save the properties, down to the present moment; and in a wide survey of fifty years it will be acknowledged that as a bank may fail without imperiling the banking system, so the long ordeal through which

the American railroads have passed still finds the moral basis of railroad management upon a very high plane in which the American people may take becoming pride. In 1904 these railroads killed one passenger in carrying eighty-one millions the equivalent of one mile. Ten years after, in 1914, but one passenger was killed in carrying four hundred and ninety-five millions of people the equivalent of one mile, or the whole population of the nation five miles. In the same year, 1914, thirty-five thousand millions of passengers and two hundred and eighty-eight thousand millions of tons of freight were carried the equivalent of one mile, and at a cost per passenger and per ton of freight which compares more than favorably with the great empires of the world. I have purposely stated in such terms these figures which are so large as almost to bewilder.

There is just one thing which the railroads and the people can not escape in any event, namely, taxes. Railroad taxes have risen from less than sixty-two millions of dollars in 1904 to one hundred and forty millions in 1914. That is, they have risen 127 per cent in this ten year period, until now out of each one hundred dollars the railroads collect they have to pay in taxes four dollars and sixty cents. This means that of their net income, after paying their operating expenses only, the railroads have to pay in taxes sixteen dollars out of every hundred, and that is before paying any interest on money borrowed or a dividend to any shareholder. The railroads expect to pay their share of the taxes, but the variety and extent of taxes paid by the railroads is of interest to the people simply in this: that the increasing burdens of railroad taxation now aggregating over one hundred and forty millions of dollars have to be met by the railroads out of their earnings. Consequently it is in the public interest that the margin between operating income and operating expenses be wide enough to enable just taxes to be paid and just compensation given to employees, without impairing the physical property and equipment which should be maintained at a high standard of excellence.

As matters stand today, a comparison of the ten year interval 1904 with 1914 shows that the operating revenues of the railroads increased fifty-four per cent, while taxes and operating expenses which do not include wages increased sixty-six per cent; the net revenue remaining to pay wages and for other purposes increased but forty-nine per cent. Of this forty-nine per cent, which represents an increase of six hundred and eighty-seven millions of dollars, sixty-eight per cent or five hundred and fifty-five millions was the increased expenditure for wages, although the number of employees increased only thirty-one per cent, and mileage of the railroads operated increased less than seventeen per cent.

"Youth will be served." A young nation and vigorous country demand development. Investment precedes construction, and construction precedes development. The money can be had if the people who own the money believe the investment safe and the returns desirable. If assured of this, rail-

roads will be built. The people with savings to invest judge by the treatment accorded the savings already invested. An adequate return to the shareholder who puts his money in the railroad business should be assured him. He should have the greater assurance because, being private money devoted to public service, that service is regulated by government itself and government thereby can fairly be held sponsor for adequate returns. We must come to a point or basis at which railroad rates shall be deemed fair and not subject to the attack of any one who chooses. The no-bottom basis of the present is false in principle and dangerous in practice. Sooner or later the agencies of government will have to stand behind the stability of railroad revenues, not for the benefit of the railroads merely but in the public interest.

In this nation the people are the source of all power. The popular will is, and will be, reflected in the treatment of the railroads at the hands of government. At times that popular will has amounted to wilfulness as in the treatment of a wayward child, but the railroads were young then and parental regulation was inexperienced. We have all grown older together. Experience is the only teacher. We are learning that the greatest industry in this nation, affecting directly millions of employees and shareholders, and affecting indirectly many millions more of security holders and those dependent upon the credit and income those securities afford, can not be affected injuriously and yet the rest of the business of the country go unscathed. When to the conditions of the present in the railroad business, involving so many millions of men and money, are added the uncertainties of the future; when to the cumulative force and effect of successive reductions, extending throughout several decades, there are added the uncertainties of reductions (none know how many or how great) which may come this year, next year or the year succeeding; is it any marvel that the business of the nation is repressed and that all business men stand in suspense and deep concern as to what the future holds for them.

It is time for the railroads and the people to take counsel together, for the uncertainty which touched the railroads first has reached to all the people. This nation needs prosperity more than it needs anything else. No business prospers by repression. The effects and influences of government should be stimulating or they are a failure. The American people prosper together. When we prosper we are all prosperous. "The pursuit of life, liberty and happiness" has prosperity for its reward, the railroads and the people in conjunction and alike.

The common sense of the people can be relied on to bring about the conditions that make prosperity. They are merely looking for light. When they find it we shall have enlightened prosperity, all the brighter for the dark uncertainties through which we have been passing. There is no room for pessimism; the country is all right and the people are all right. We are in their hands.

Bureau of Railway Economics.

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"The Railroads and The People"

Address of

WM. SPROULE,

President Southern Pacific Company

At the Annual Convention of the American Bankers
Association, Seattle, Washington,
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